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NAVIGANT CONSULTING INC  
Form 8-K/A  
December 09, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

Date of Report (Date of earliest event reported): September 23, 2002

Navigant Consulting, Inc.  
(Exact name of Registrant as specified in its charter)

Commission File No. 0-28830

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-4094854  
(I.R.S. Employer  
Identification No.)

615 North Wabash Avenue, Chicago, Illinois 60611  
(Address of principal executive offices, including zip code)

(312) 573-5600  
(Registrant's telephone number, including area code)

Not Applicable  
(Former Name or Former Address, if Changed Since Last Report)

The Registrant's Current Report on Form 8-K dated September 23, 2002 is hereby amended to add Item 7 below.

"Navigant" is a service mark of Navigant International, Inc. The Company is not affiliated, associated, or in any way connected with Navigant International, Inc. and the Company's use of "Navigant" is made under license from Navigant International, Inc.

Item 7. Financial Statements and Exhibits

(a) Financial statements of business acquired

Independent Auditors' Report

The Board of Directors  
Hunter & Associates Management Services, Inc.:

We have audited the accompanying balance sheets of Hunter & Associates Management Services, Inc. as of December 31, 2001 and 2000, and the related statements of operations and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

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statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hunter & Associates Management Services, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

November 22, 2002

Hunter & Associates Management Services, Inc.  
Statement of Operations  
(In thousands)

	For the years ended December 31,		
	2001	2000	1999
Revenues	\$ 27,993	\$ 20,696	\$ 25,686
Consulting services expense	18,128	15,633	13,259
Gross margin	9,865	5,063	12,427
General and administrative expenses	1,520	1,527	2,201
Depreciation and amortization expense	902	922	936
Operating income	7,443	2,614	9,290
Interest income	161	251	153
Interest expense	(245)	(474)	(743)
Other income (expense), net	219	-	(4)
Income before income taxes	7,578	2,391	8,696
Income tax expense	140	1,228	3,769
Net income	\$ 7,438	\$ 1,163	\$ 4,927
Retained earnings, beginning	7,969	6,806	1,879
Distribution to stockholders	(3,929)	-	-
Retained earnings, ending	\$ 11,478	\$ 7,969	\$ 6,806

See accompanying notes to the audited financial statements.

Hunter & Associates Management Services, Inc.  
Balance Sheet  
(In thousands)

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	December 31, 2001	December 2000
	-----	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,763	\$ 5,303
Accounts receivable, net	3,205	1,925
Prepaid expenses and other current assets	74	134
	-----	
Total current assets	7,042	7,362
Property and equipment, net	207	114
Goodwill and intangible assets, net	9,674	10,525
	-----	
Total assets	\$16,923	\$18,001
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued compensation and related costs	\$ 1,033	\$ 485
Current portion of long-term debt	-	2,546
Deferred revenue	1,690	1,739
Other current liabilities	522	290
	-----	
Total current liabilities	3,245	5,060
Non-current liabilities:		
Long-term debt	1,200	3,946
Other non-current liabilities	-	26
	-----	
Total liabilities	4,445	9,032
Stockholders' equity:		
Paid-in-capital	1,000	1,000
Retained earnings	11,478	7,969
	-----	
Total stockholders' equity	12,478	8,969
	-----	
Total liabilities and stockholders' equity	\$16,923	\$18,001
	=====	

See accompanying notes to the audited financial statements.

Hunter & Associates Management Services, Inc.  
Statement of Cash Flows  
(In thousands)

For the y  
-----  
2001  
-----

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Cash flows from operating activities	
Net Income	\$ 7,438
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	902
Changes in assets and liabilities:	
Accounts receivable	(1,280)
Prepaid and other current assets	64
Accrued compensation and related costs	548
Stockholders' distribution for S-Corporation income tax payments	(3,929)
Deferred revenue	(49)
Other current liabilities	232
	-----
Cash flows provided by operating activities	3,926
Cash flows from investing activities	
Capital expenditures	(146)
Other	(28)
	-----
Cash flows used in investing activities	(174)
Cash flows from financing activities	
Repayments of long-term debt	(5,292)
Proceeds from long-term debt	-
	-----
Cash flows used in financing activities	(5,292)
	-----
Net increase (decrease) in cash and cash equivalents	(1,540)
Cash and cash equivalents at beginning of period	5,303
	-----
Cash and cash equivalents at end of period	\$ 3,763
	=====

See accompanying notes to the audited financial statements.

### NOTES TO AUDITED FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

#### Note 1. Description of Business Acquired and Summary of Significant Accounting Policies

##### Nature of Operations:

Hunter & Associates Management Services, Inc. ("Hunter"), is a New Jersey Corporation, established in 1988 and converted to a Delaware Corporation in 1991. Corporate offices are located in St. Petersburg, Florida. Hunter provides a comprehensive range of performance improvement services to hospitals and health care systems, including physician practices, faculty practice plans, and provider owner-managed care organizations. Hunter also provides interim executive-level management services as well as consulting services related to hospital restructurings.

THG Investors, Inc. ("THG") was incorporated in the State of Florida on May 8, 1998 as a Florida C-Corporation. THG acquired one hundred percent (100%) of the stock of Hunter & Associates Management, Inc. on June 12, 1998. Effective January 1, 2001, THG elected to become an S-Corporation for federal tax purposes and Hunter & Associates Management Services, Inc. became a qualified Subchapter S subsidiary company of THG.

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### Basis of Accounting:

The financial statements of Hunter were prepared in conformity with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the amounts reported in financial statements and related notes. Actual results could differ from those estimates.

### Cash and Cash Equivalents:

Hunter considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

### Accounts Receivable:

Accounts receivable are recorded when clients are billed. The allowance for doubtful accounts is recorded based upon specific identification of potential uncollectible accounts. Accounts receivable also includes engagements in process, which represent the amount due for services that have been performed and earned but have not been billed to clients. Billings are generally done on a monthly basis for the prior month's service.

### Revenue Recognition:

Revenues are derived from consulting and interim management services. Revenues are recognized as earned over the term of the underlying contractual agreements as the related professional services are provided. Certain contracts are accounted for on the percentage of completion method, whereby revenues are recognized based upon costs incurred in relation to total estimated costs at completion.

### Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed using the straight line method based on the estimated useful lives, ranging from five to seven years, of the various classes of property and equipment. Amortization of leasehold improvements is computed over the shorter of the remaining lease term or the estimated useful life of the asset.

### Income Taxes:

Historically, Hunter's results have been included in THG's consolidated Federal and state income tax returns. The income tax provision is calculated as if Hunter had operated as an independent entity. Beginning January 1, 2001, Hunter became a qualified Subchapter S subsidiary. Therefore, no current or deferred federal taxes are recorded for 2001 as the individual stockholders include their pro rata share of Hunter's taxable income in their separate income tax returns. The income tax provision is comprised of state income taxes for which Hunter was subject to state income taxes in certain jurisdictions.

### Goodwill:

The acquisition of all of the stock of Hunter & Associates Management Services, Inc. by THG Investors, Inc. resulted in \$12.7 million of goodwill, which was "pushed down" to Hunter following the acquisition. Goodwill has been amortized for financial reporting purposes on a straight-line basis over a fifteen-year period. However, this goodwill was not deductible for income tax reporting purposes.

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### Note 2. Supplemental Balance Sheet Information

#### Accounts Receivable:

The components of accounts receivable as of December 31 were as follows (shown in thousands):

	2001	2000
	-----	-----
Accounts receivable .....	\$ 2,288	\$ 1,698
Engagements in process .....	936	258
Allowance for uncollectible accounts .....	(19)	(31)
	-----	-----
	\$ 3,205	\$ 1,925
	=====	=====

#### Goodwill:

The components of goodwill as of December 31 consisted of (shown in thousands):

	2001	2000
	-----	-----
Goodwill .....	\$ 12,667	\$ 12,667
Less: accumulated amortization .....	(2,993)	(2,142)
	-----	-----
	\$ 9,674	\$ 10,525
	=====	=====

#### Long-term debt:

The components of long-term debt as of December 31 consisted of (shown in thousands):

	2001	2000
	-----	-----
Notes payable to SunTrust Bank .....	\$ -	\$ 5,292
Notes payable to stockholders of THG .....	\$ 1,200	\$ 1,200
	-----	-----
Total debt .....	\$ 1,200	\$ 6,492
Less: current portion .....	( -)	(2,546)
	-----	-----
	\$ 1,200	\$ 3,946
	=====	=====

The notes payable to SunTrust Bank are dated December 2, 1999, were secured by all business assets, and bear interest at the rate of 7.5 percent per annum. The principal was due in equal installments of \$0.7 million, commencing on January 1, 2000 and then each successive quarter thereafter through and including October 1, 2002. The notes payable to SunTrust Bank were paid in full in 2001.

The notes payable to stockholders of THG, shown in aggregate, are dated December 22, 2000 and are due to individual stockholders of THG. The notes payable to stockholders of THG bear interest at an interest rate of 7.25 percent per annum.

### Note 3. Operating leases

Hunter leases office space located in St. Petersburg, Florida. The lease term is three years commencing on November 16, 2001 and expiring November 15, 2004. In

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addition, Hunter leases copier equipment under a two year lease agreement. Lease expense totaled \$0.1 million in each of the years ended December 31, 2001, 2000 and 1999.

Future minimum annual lease payments, in the aggregate, for the years subsequent to 2001 are as follows (shown in thousands):

Year ending December 31, -----	Amount
2002 .....	\$ 83
2003 .....	84
2004 .....	64
2005 .....	-
Thereafter .....	-
	\$ 231
	=====

### Note 4. Income Tax Expense

For the years ended December 31, the components of income tax expense are as follows (shown in thousands):

	2001	2000	1999
Current:			
Federal .....	\$ -	\$ 981	\$3,034
State .....	140	247	744
Total .....	140	1,228	3,778
Deferred:			
Federal .....	-	-	(4)
State .....	-	-	(5)
Total .....	-	-	(9)
Total income tax expense .....	\$ 140	\$1,228	\$3,769

Year 2001: Effective January 1, 2001, THG elected to become an S-corporation for federal tax purposes and Hunter became a qualified Subchapter S subsidiary company of THG. Therefore, no current or deferred federal taxes are recorded for 2001 as the individual stockholders include their pro rata share of Hunter's taxable income in their separate income tax returns. The income tax provision is comprised of state income taxes for which Hunter was subject to state income taxes in certain jurisdictions.

Year 2000 and 1999: The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes because certain expenses are not deductible for tax purposes.

### Item 7.

#### (b) Pro Forma Financial Information

The following unaudited pro forma information is presented to show the estimated effects of the acquisition of Hunter & Associates Management Services, Inc. (Hunter) by Navigant Consulting, Inc. ("the Company").

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The pro forma combined statements of operations combine the companies' respective statements of operations as if the acquisition had occurred at the beginning of the periods presented. The unaudited pro forma combined statements of operations are based on the assumptions and adjustments described in the accompanying notes.

The pro forma adjustments to give effect to the acquisition are based upon the purchase method of accounting and upon the assumptions set forth in the accompanying notes. This pro forma combined financial information should be read in conjunction with the historical financial statements of the Company, filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and the historical financial statements of Hunter, which are contained herein.

The pro forma adjustments do not reflect cost savings from synergies which may be realized nor integration costs to be incurred subsequent to the acquisition.

The unaudited pro forma combined statements of operations are not necessarily indicative of the operating results that would have occurred had the acquisition been consummated at the beginning of the periods. Therefore these unaudited pro forma combined financial statements should not be construed as representative of future operations. For purposes of preparing the Company's consolidated financial statements subsequent to the acquisition, the Company will establish a new basis for Hunter's assets and liabilities based upon the fair values thereof and the aggregate purchase price, including the costs of the acquisition. A final determination of required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been completed. Accordingly, the purchase accounting adjustments made in connection with the development of the pro forma combined financial information are preliminary and have been made solely for purposes of developing such pro forma combined financial information. The Company has undertaken a study to determine the fair value of certain of Hunter's assets and liabilities and will make appropriate purchase accounting adjustments upon completion of that study. The actual financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein.

UNAUDITED PRO FORMA  
COMBINED STATEMENTS OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(In thousands, except per share data)

	Historical	
	Navigant	Hunter
Revenues	\$ 235,580	\$ 27,993
Consulting services expense	152,007	18,128
VSRP cash compensation expense - consultants	11,296	-
Stock-based compensation - consultants	3,238	-
	69,039	9,865
Gross margin	69,039	9,865



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General and administrative expenses	55,413	1,520
Depreciation expense	7,118	53
Amortization expense	5,700	849
VSRP cash compensation expense - other	1,103	-
Stock-based compensation - other	574	-
Restructuring costs and merger-related costs (credits)	1,900	-
Litigation and settlement provisions	5,700	-
	-----	-----
Operating income (loss)	(8,469)	7,443
Other income (loss), net	874	135
	-----	-----
Income (loss) before income taxes	(7,595)	7,578
Income tax expense (benefit)	(2,284)	140
	-----	-----
Net income (loss)	(5,311)	7,438
	=====	=====
Basic loss per share	(\$0.14)	
Shares used in computing net loss per basic share	38,439	
Diluted loss per share	(\$0.14)	
Shares used in computing net loss per diluted share	38,439	

See accompanying notes to the unaudited pro forma combined financial statements.

UNAUDITED PRO FORMA  
COMBINED STATEMENTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002  
(In thousands, except per share data)

	Historical		Pro forma Adjustmen (Note a)
	Navigant	Hunter	
	-----	-----	-----
Revenues	\$188,186	\$ 19,524	\$ -
Consulting services expense	122,984	13,986	-
VSRP cash compensation expense - consultants	-	-	-
Stock-based compensation - consultants	1,313	-	-
	-----	-----	-----
Gross margin	63,889	5,538	-
General and administrative expenses	44,827	1,188	-
Depreciation expense	5,754	35	-
Amortization expense	1,235	-	-
VSRP cash compensation expense - other	-	-	-
Stock-based compensation - other	356	-	-
	-----	-----	-----
Operating income	11,717	4,315	-
Other income (loss), net	63	(43)	-
	-----	-----	-----
Income before income taxes	11,780	4,272	-
Income tax expense	4,721	32	1,655
	-----	-----	-----

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Net income (loss)	\$ 7,059	\$ 4,240	\$ (1,655)
Basic income per share	\$ 0.18		
Shares used in computing net income per basic share	39,535		2,585
Diluted income per share	\$ 0.17		
Shares used in computing net income per diluted share	41,690		2,585

See accompanying notes to the unaudited pro forma combined financial statements.

UNAUDITED PRO FORMA  
COMBINED STATEMENTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001  
(In thousands, except per share data)

	Historical		Pro forma Adjustmen (Note a)
	----- Navigant	Hunter -----	-----
Revenues	\$ 177,383	\$ 19,011	\$
Consulting services expense	114,406	12,794	
VSRP cash compensation expense - consultants	11,296	-	
Stock-based compensation - consultants	2,095	-	
Gross margin	49,586	6,217	
General and administrative expenses	42,372	984	
Depreciation expense	5,229	54	
Amortization expense	4,218	630	1,24
VSRP cash compensation expense - other	1,103	-	
Stock-based compensation - other	333	-	
Restructuring costs and merger-related costs (credits)	1,900	-	
Litigation and settlement provisions	5,700	-	
Operating income (loss)	(11,269)	4,549	(1,24)
Other income (loss), net	794	(86)	
Income before income taxes	(10,475)	4,463	(1,24)
Income tax expense	(3,526)	12	1,25
Net income (loss)	(6,949)	\$ 4,451	\$ (2,50)
Basic loss per share	(\$0.18)		
Shares used in computing net loss per basic share	38,375		2,58
Diluted loss per share	(\$0.18)		
Shares used in computing net loss per diluted share	38,375		2,58

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See accompanying notes to the unaudited pro forma combined financial statements.

### NOTES TO PRO FORMA COMBINED STATEMENTS OF OPERATIONS

- a) The accompanying pro forma combined statement of operations for the year ended December 31, 2001 combines the Navigant Consulting Inc. ("the Company") consolidated statement of operations with the statement of operations of Hunter & Associates Management Services, Inc. ("Hunter") for the period then ended, as if the acquisition had been consummated at January 1, 2001.

The accompanying pro forma combined statements of operations for the nine month periods ended September 30, 2002 and 2001 combine the Company consolidated statements of operations through the periods then ended with the statements of operations of Hunter for the nine month period ended September 30, 2001 and for the period from January 1, 2002 through September 17, 2002 (Hunter's results after September 17, 2002 are included in the Company's results), as if the acquisition had been consummated as of the beginning of each period.

The pro forma combined statements of operations do not include pro forma adjustments to give effect to cost savings from synergies which may be realized subsequent to the acquisition. One-time, nonrecurring transaction and integration costs associated with the acquisition are not included in these pro forma combined statements of operations.

- b) This adjustment represents the recognition of amortization expense attributable to the excess purchase price over the net assets acquired. Since the study to determine the fair value of certain acquired assets and liabilities is not yet complete, the excess purchase price has not been allocated to any intangible assets other than goodwill. An amortization period of ten years was assumed given the Company's historical policy for determining the estimated useful life of goodwill.

Amortization of goodwill has not been recorded in the nine month period ended September 30, 2002 because the Company ceased amortization beginning January 1, 2002, as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles".

- c) This adjustment represents Federal income taxes that would have been recorded by Hunter had it not been a Subchapter S corporation and had instead been required to pay Federal income taxes.
- d) This adjustment gives effect to the impact on weighted average shares outstanding for the 1.465 million shares issued by the Company upon the closing of the acquisition of Hunter, plus the shares distributable in the future as described in the next paragraph.

Under the terms of the acquisition agreement, the Company must distribute to the seller its common stock with an aggregate value of \$6.5 million, in equal installments, on the first and second anniversaries of the acquisition. If either party elects, up to 67 percent of such distribution would be payable, in cash. For purposes of the pro forma combined statements of operations, the Company has assumed that the maximum number of shares (1.120 million shares) would be distributed, and such shares were deemed to be outstanding throughout each of the periods.

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Item 7.

(c) Exhibits

(a) The following exhibits are filed with the Form 8-K/A:

Exhibit 23.1 - Consent of KPMG LLP.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Navigant Consulting, Inc.

/s/ Ben W. Perks

By:

-----  
Ben W. Perks  
Executive Vice President and Chief  
Financial Officer

Date: December 6, 2002